

Kentucky Teachers' Retirement System



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Executive Secretary

October 31, 2007

***“A Summary of the
Kentucky Teachers’
Retirement System”***



Information prepared for

**Secretary
Brian Crall**



KTRS was established by the General Assembly in 1938 and funded in 1940

A Defined Benefit Group Retirement Plan was established to provide retirement benefits for local school districts and other public educational agencies in the state.

Current employers comprised of:



175 local school districts



17 Department of Education Agencies



Five Regional Universities & all Community Colleges



KCTCS

Field of Membership

as of December 2006

Active	0 – 26 Years	Non-eligible	44,269
	27+ Years*	Eligible	<u>14,004</u>
	Total Active		58,273
	Sub/PT/Retired Return to Work		<u>15,042</u>
	Total Contributing Members		73,315

Inactive	16,642
Retired, Beneficiaries & Survivors	39,332
Total	129,289

** and/or age 55 with 5 or more years of service within the next fiscal year*

KTRS is unique when compared to other public pension plans

- Most members are not subject to Social Security.
- By statute, there is a fixed employer contribution rate.
- Retiree health care benefits are provided.
- COLAs are funded.
 - Base COLA of 1.5% is pre-funded.
 - Ad Hoc COLAs, if awarded, are funded in the biennial budget process.

KTRS is a comprehensive Defined Benefit Group Retirement Plan

Benefits Summary

Active Member Benefits

- Provides benefits in the event members become disabled.
- Provides benefits to survivors in the event of members deaths.
- Life insurance benefit of \$2,000.

KTRS is a comprehensive Defined Benefit Group Retirement Plan

Benefits Summary

Retired Member Benefits

- Defined benefit group retirement plan with lifetime guaranteed retirement benefits.
- Life insurance benefit of \$5,000.
- Annual cost-of-living increases (COLA).
 - 1.5% included in current contribution rates.
 - Ad hoc COLAs when approved in the biennial budget process.
- Retiree medical benefits.

Calculation of Retirement Benefits

1. Retirement with 27 years of service

- General Benefit formula =
Years of Service x multiplier x 5 highest salaries

2. Multiplier of 2.0/2.5%/3.0% (for new hires after July 1, 2002)

3. High 3 salaries at age 55 and 27 years of service

- *Discounted retirement allowance for members with less than 27 years of service and less than age 60, but at least age 55.*

Review of Kentucky Retired Teachers' Health Benefits

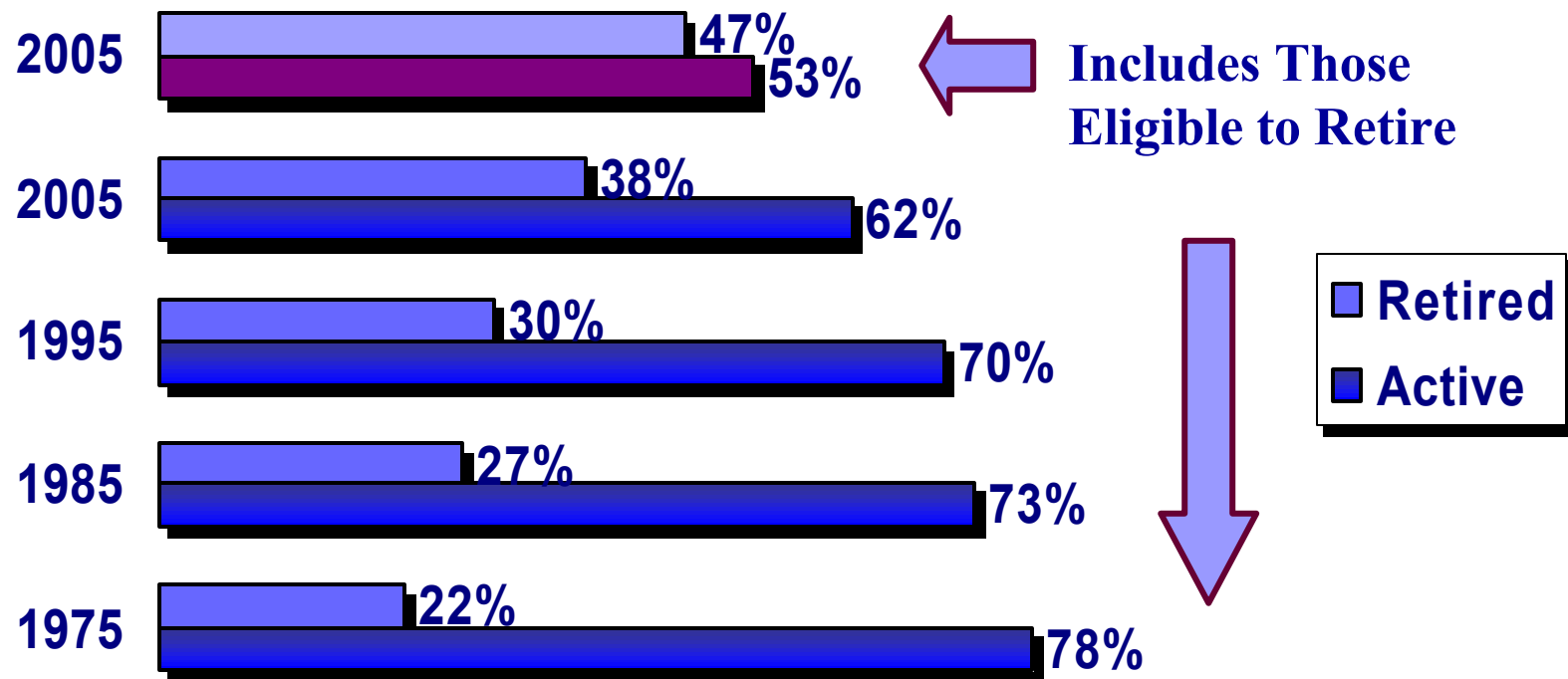
KTRS Medical Benefit

- Funding for retiree medical insurance is on a pay-as-you-go basis (started in 1964).
- $\frac{3}{4}$ of 1% member contribution + $\frac{3}{4}$ of 1% employer contribution = 1.5% of payroll.
- Medical costs have increased as well as number of covered retirees.
- To continue funding through 2008, the Commonwealth will borrow \$289 million from the KTRS Pension Fund.
- Need for medical insurance funding to be in the General Budget in lieu of borrowing from the KTRS Pension Fund.

Recap of Actuarial Status of the System at June 30, 2006

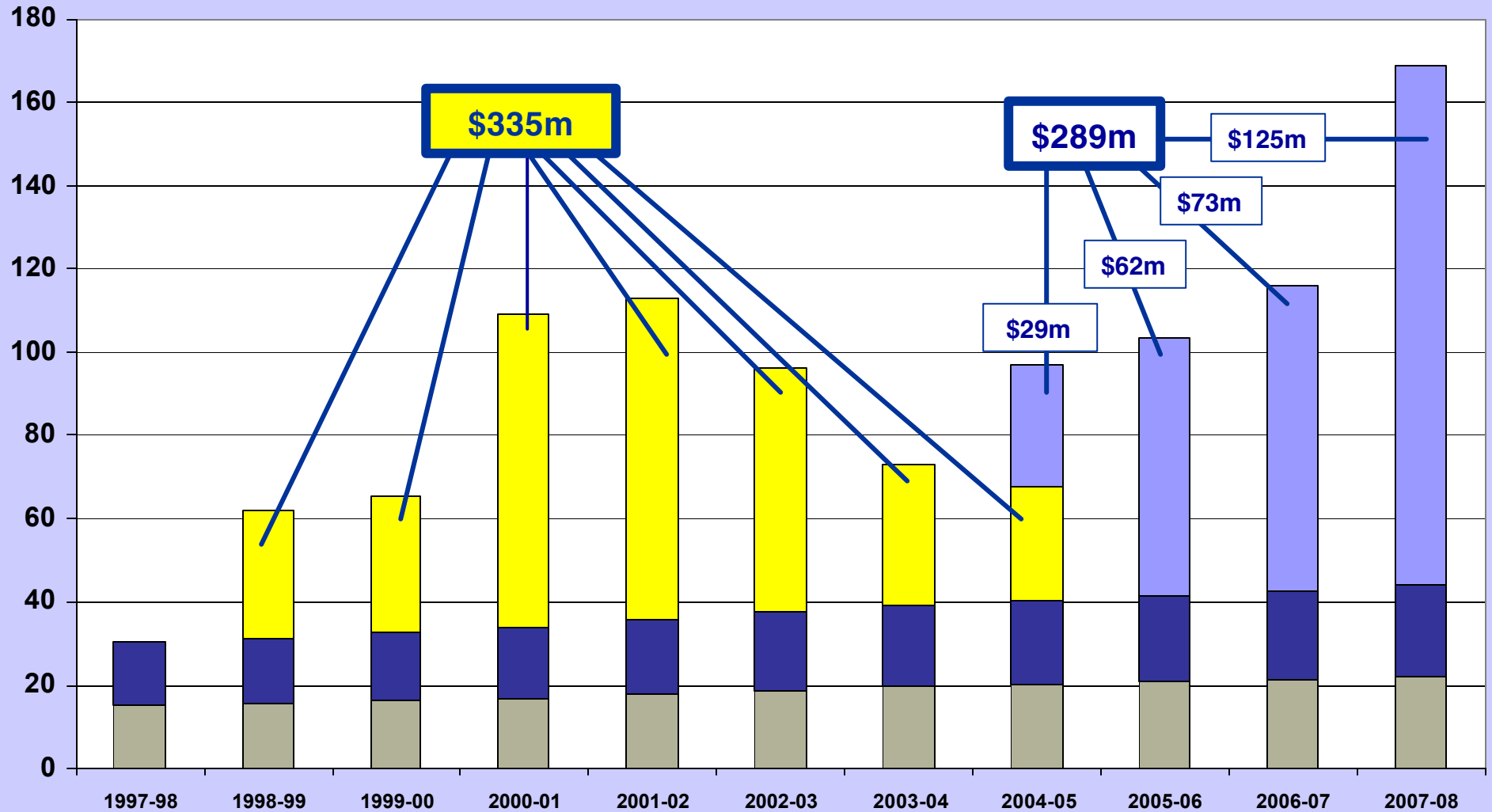
	Assets	Liabilities	Unfunded	Percent
<i>Pre-funded</i>				
Retirement Benefit	14,857.6	20,324.8	5,467.1	73.1%
<i>Pay-as-you-go</i>				
Medical Benefit	131.6	4,341.9	4,210.3	3.0%
	14,989.2	24,666.7	9,677.4	

Ratio of Active Teachers to Retired Teachers



	1975	1985	1995	2005	2005
Retired	22%	27%	30%	38%	47%
Active	78%	73%	70%	62%	53%

Primary Funding for Medical Insurance Fund



Member Contribution

*¾ of 1% of
member
salary*



State Match

*Equals
member
contribution*



Redirected Retirement Contributions



Borrow from Retirement Contributions



Actuarial Update

KTRS Pension Fund:

- Is actuarially sound.
- Borrowing from the Pension Fund to sustain retiree medical insurance does impact actuarial soundness.
- Most recent actuarial report informed KTRS of need for an employer contribution increase in the 2008 Regular Session from 1.32% to 1.88%.

Review of Kentucky Retired Teachers' Health Benefits

Kentucky Retired Teachers' Health Insurance is provided in two plans:

- **Kentucky Employees Health Plan (KEHP)**
For Retirees Under Age 65
- **Medicare Eligible Health Plan (MEHP)**
For Retirees Age 65 & Over

Review of Kentucky Retired Teachers' Health Benefits

KEHP

Plan includes:

- school district employees
- state employees
- some local government employees
- teacher retirees under age 65
- state, county & city retirees under age 65
- Plan moved to self-insurance in 2006

Kentucky Teachers' Retirement System

Cost of Single Coverage-KEHP

2004		286.16	
2005	43.2%	409.86	
2006	19.3%	488.96	
<i>Legislature lowered premium</i>	-12.2%	432.00	
2007	8.8%	457.70	
2008 <i>actuarial projection</i>	10%	503.00	

Review of Kentucky Retired Teachers' Health Benefits

MEHP

- ❖ Self-Insured Plan since 1992.
- ❖ Consists of two components-medical benefits & drug benefits
- ❖ Medical benefits delivered by Humana, drug benefits delivered by Medco.
- ❖ Premiums in 2006 were \$315/month.
- ❖ Premiums in 2007 are \$283/month.

Review of Kentucky Retired Teachers' Health Benefits

MEHP

Recap Medical Benefits

- ❖ Moved to Medicare Advantage PFFS plan January 2007/mirrors self-insured plan.
- ❖ Member pays Medicare Part B Premium.
 - ❖ \$93.50 per month out-of-pocket.
- ❖ Medicare subsidizes ~90%.
- ❖ KTRS pays fixed premium.
- ❖ Member pays 4%.

Review of Kentucky Retired Teachers' Health Benefits

MEHP

Recap Medical Benefits

❖ Retail

- ❖ Three-tier incentive formulary
- ❖ 20% generic/brand formulary at retail
- ❖ 35% brand/non-formulary at retail
- ❖ \$150 annual retail deductible

❖ Home Delivery

- ❖ \$10 generic copay for 90-day supply
- ❖ \$20 brand formulary
- ❖ \$35 non-formulary
- ❖ No annual deductible

KTRS Major Efforts to Contain Retirement and Healthcare Costs

1992

- **Self-insurance used for retirees.**

1998

- **Air-time purchases at full actuarial cost.**
- **High 3 at age 55 with 27 years of service.**

2001

- **Eliminated double-dipping of medical benefits.**

KTRS Major Efforts to Contain Retirement and Healthcare Costs

2002

- **Medical insurance benefit reduced for new hires.**
- **Return-to-work salaries limited after required breaks-in-service.**
- **Limit on number of retirees that can return full-time.**

KTRS Major Efforts to Contain Retirement and Healthcare Costs

2002 continued ...

- **Benefit multipliers lowered for new hires.**
- **Field of membership significantly expanded.**
- **Disability retirement reformed.**

2004

- **Service credit purchases moved to full actuarial cost.**

Kentucky Teachers' Retirement System

Retirement Trends

Analysis of June, July & August Retirements **2001 vs. 2006**

	2001			2006		
SERVICE	Average Age	Count	Percent	Average Age	Count	Percent
< 27 years	59	236	15%	60	234	20%
27 – 27.99 years	52	529	35%	54	319	26%
28 + years	55	770	50%	56	629	54%
	54	1,535	100%	56	1,182	100%

KTRS Major Efforts to Contain Retirement and Healthcare Costs

Two Federal Programs Utilized to Save Medical Costs in the MEHP Program

2006

- **Medicare Prescription Part D.**
 - **Saves over \$10 million annually.**

2007

- **Medicare Advantage Private Fee For Service.**
 - **Saves over \$11 million annually.**

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KTRS joined with other retirement systems to form the **Public Sector Healthcare Roundtable** to address retiree health care costs on a national level.

<http://www.healthcareroundtable.org>

**High School
Certified Salary Schedule 2006-07
2%**

Exp.	Rank III	Rank II	Rank I	Rank IAA	Rank IV
0	\$ 30,397	\$ 34,430	\$ 38,671	\$ 39,284	\$ 27,771
1	\$ 31,266	\$ 35,029	\$ 39,215	\$ 39,880	\$ 27,771
2	\$ 32,136	\$ 35,626	\$ 39,813	\$ 40,478	\$ 27,771
3	\$ 33,005	\$ 36,223	\$ 40,409	\$ 41,074	\$ 27,771
4	\$ 33,874	\$ 36,820	\$ 41,004	\$ 41,672	\$ 27,771
5	\$ 34,744	\$ 37,418	\$ 41,602	\$ 42,270	\$ 27,771
6	\$ 35,614	\$ 38,014	\$ 42,198	\$ 42,867	\$ 27,771
7	\$ 36,484	\$ 38,612	\$ 42,796	\$ 43,463	\$ 27,771
8	\$ 37,354	\$ 39,209	\$ 43,393	\$ 44,060	\$ 27,771
9	\$ 38,246	\$ 39,804	\$ 43,992	\$ 44,658	\$ 27,771
10	\$ 39,138	\$ 40,401	\$ 44,587	\$ 45,264	\$ 27,771
11	\$ 39,834	\$ 40,999	\$ 45,193	\$ 45,879	\$ 27,771
12	\$ 40,316	\$ 41,596	\$ 45,806	\$ 46,490	\$ 27,771
13	\$ 40,797	\$ 42,193	\$ 46,420	\$ 47,104	\$ 27,771
14	\$ 41,277	\$ 42,791	\$ 47,032	\$ 47,716	\$ 27,771
15	\$ 41,760	\$ 43,388	\$ 47,645	\$ 48,331	\$ 27,771
16	\$ 42,239	\$ 43,986	\$ 48,258	\$ 48,944	\$ 27,771
17	\$ 42,722	\$ 44,582	\$ 48,871	\$ 49,558	\$ 27,771
18	\$ 43,202	\$ 45,187	\$ 49,485	\$ 50,170	\$ 27,771
19	\$ 43,684	\$ 45,800	\$ 50,098	\$ 50,783	\$ 27,771
20	\$ 44,164	\$ 46,412	\$ 50,711	\$ 51,397	\$ 27,771
21	\$ 44,645	\$ 47,026	\$ 51,324	\$ 52,009	\$ 27,771
22	\$ 45,133	\$ 47,639	\$ 51,938	\$ 52,623	\$ 27,771
23	\$ 45,629	\$ 48,252	\$ 52,551	\$ 53,236	\$ 27,771
24	\$ 46,121	\$ 48,866	\$ 53,164	\$ 53,848	\$ 27,771
25	\$ 46,615	\$ 49,480	\$ 53,778	\$ 54,462	\$ 27,771
26	\$ 47,110	\$ 50,093	\$ 54,390	\$ 55,076	\$ 27,771
27	\$ 47,672	\$ 50,654	\$ 54,953	\$ 55,536	\$ 27,771

Salary Schedule was adopted by the
on 06/05/06
Effective July 1, 2006

School Board

**Salary
Schedule**

*Showing
typical
teacher salary
per year of
service for
2006-07
school year.*

The Average Career Educator

- Retires at age 56.
- With 30 years service.
- With a pension equal to 72% of their final average salary.
- With a medical benefit on a pay-as-you-go basis.
- **Does not have a social security benefit.**

Membership Analysis

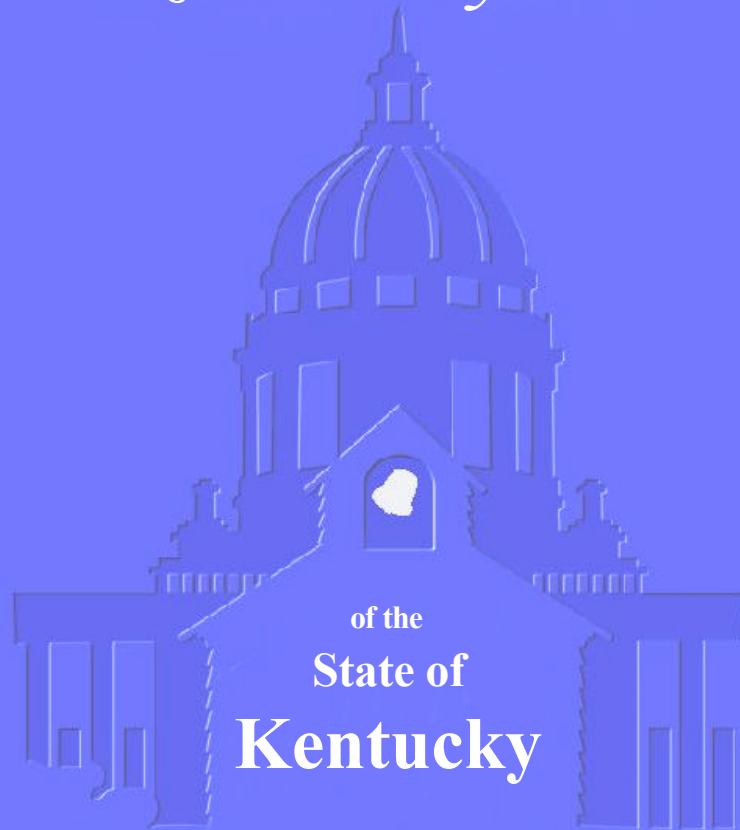
August 2005 – July 2006

	Retirees for the period	New Hires for the period
Average beginning teaching age	27	31
Average contract salary	\$57,110	\$34,631
Average age at retirement	56	N/A
Average retirement benefit	\$34,459	N/A

Savings to Local Districts and Other Employers

Average Retiring Members Pay	\$57,110
Average New Full-time Members Pay	\$34,631
<i>----- Difference -----</i>	\$ 22,479
Number of Members Eligible to Retire	14,004
Savings to Local Districts & Other Employers	\$315 Million per year

*Teachers'
Retirement System*



Teachers' Retirement System
of the State of Kentucky

***Our Members
Come First!***

Reach us at . . .

1.800.618.1687

502.848.8500

www.ktrs.ky.gov

Protecting & Preserving Teachers' Retirement Benefits